



April 6, 2026

To: Regional Transportation Planning Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Fiscal Year 2026-27 through Fiscal Year 2028-29 Measure M2 Maintenance of Effort Adjustment, Updates to the Eligibility, Countywide Pavement Management Plan and Local Signal Synchronization Plan Guidelines, and Approval of Measure M2 Local Fair Share Guidelines

Overview

The Orange County Transportation Authority's Measure M2 Ordinance No. 3 specifies requirements that local jurisdictions must satisfy to be eligible to receive Measure M2 net sales tax revenues. Guidelines for Measure M2 eligibility, pavement management plans, and local signal synchronization plans are used to assist local jurisdictions in meeting Measure M2 requirements. Proposed updates to the guidelines, including the maintenance of effort benchmark adjustment and guidance on allowable uses of Measure M2 Local Fair Share funding, are presented for Board of Directors' consideration and approval.

Recommendations

- A. Approve maintenance of effort benchmark for Fiscal Years 2026-27 through 2028-29 per Measure M2 Ordinance No. 3 requirements.
- B. Approve proposed revisions to the Measure M2 Eligibility, Countywide Pavement Management Plan, and Local Signal Synchronization Plan guidelines.
- C. Approve proposed Measure M2 Local Fair Share Guidelines.

Background

The Orange County Transportation Authority's (OCTA) Measure M2 (M2) Ordinance No. 3 (M2 Ordinance) establishes eligibility requirements that local jurisdictions must meet in order to receive M2 net revenues. Among these requirements is the maintenance of effort (MOE) provision. Under the MOE

requirement, local jurisdictions must maintain a minimum level of spending on local streets and roads using discretionary or general fund revenue (GFR). The intent of the MOE requirement is to ensure that M2 net revenues do not supplant funding for streets and roads that jurisdictions were spending prior to Measure M. This requirement is tied to Public Utilities Code Section 180000 et seq., the State enabling legislation that authorizes local sales tax measures.

OCTA maintains and periodically updates guidance documents to support local jurisdictions in complying with M2 requirements. These include the M2 Eligibility Guidelines (Eligibility Guidelines), which include the MOE benchmark adjustment process, as well as the Countywide Pavement Management Plan (PMP) Guidelines and the Local Signal Synchronization Plan (LSSP) Guidelines.

In addition to administering the eligibility requirements, OCTA provides guidance on the use of M2 net revenues distributed through its programs. One such program is the M2 Local Fair Share (LFS) program, which provides formula-based allocations to eligible jurisdictions for use on allowable transportation planning and implementation activities. As with all M2-funded programs, the use of these funds is subject to provisions in the M2 Ordinance intended to ensure accountability and proper use of revenues. Unauthorized use of M2 net revenues could result in a jurisdiction being deemed ineligible to receive M2 funding for a period of up to five years. To further support the administration of these funds, staff has developed M2 LFS Guidelines to provide additional clarity on eligible and allowable uses.

Staff has completed a review of the guideline documents and is recommending approval of the revisions that are discussed below, as well as approval of the new M2 LFS Guidelines. These updates are intended to support local jurisdictions in meeting the M2 eligibility requirements in fiscal years (FY) 2026-27 through 2028-29 and include revisions to clarify and streamline M2 eligibility submittal and review processes.

Discussion

MOE Benchmark Adjustment

The MOE requirement ensures that M2 funds are used annually to supplement, not supplant, existing discretionary local revenues for transportation improvements and programs. To remain in compliance with this requirement,

each jurisdiction must maintain a minimum level of local streets and roads, expenditures, referred to as the MOE benchmark.

One of the proposed revisions to the Eligibility Guidelines pertains to the MOE benchmark adjustment. Every three years, OCTA is required to calculate and update the MOE benchmark based on the percentage growth in the California Department of Transportation (Caltrans) construction cost index (CCI) over the preceding three calendar years. However, if a local jurisdiction's GFR growth during that same period is lower than the CCI growth, the jurisdiction's GFR growth rate is used instead to adjust the existing MOE benchmark. If a jurisdiction experiences zero or negative GFR growth, the current MOE benchmark will remain unchanged.

To calculate the adjustment, OCTA requested excerpts from each local jurisdiction's FY 2024-25 annual comprehensive financial report (ACFR) and compared that to the ACFR excerpts that were provided for FY 2021-22 to determine the three-year growth. Final ACFRS were not yet available from five jurisdictions; therefore, draft ACFRs were provided and used to calculate estimated benchmarks. Adjustments may be necessary upon final adoption of each jurisdiction's ACFR and, if required, will be presented to the Board of Directors (Board) by July 2026.

Between calendar years 2022 and 2025, the Caltrans CCI increased by 49.57 percent, reflecting substantial growth in construction costs. During the same period, local jurisdictions' GFR increased by an average of 22.60 percent. Because benchmark adjustments are based on jurisdiction-specific GFR growth when lower than the CCI growth, the resulting adjustments vary by jurisdiction. In calculating these adjustments, staff evaluated potential exclusions, such as one-time and certain non-discretionary revenues, to ensure benchmarks reflect ongoing discretionary revenue trends. The MOE adjustments for each local jurisdiction are provided in Attachment A.

Eligibility Guidelines

The Eligibility Guidelines assist local jurisdictions in preparing and submitting a compliant eligibility package in accordance with M2 requirements. The proposed revisions are primarily administrative in nature. These include minor updates to the eligibility checklist and due dates, general wording revisions, clarification of submittal requirements, and technical updates and clarifications throughout the document, including the appendices and reporting forms. A summary of the

recommended revisions to the Eligibility Guidelines is provided in Attachment B, and a redlined version of the proposed changes is included in Attachment C.

Countywide PMP Guidelines

The PMP Guidelines establish a consistent methodology for local jurisdictions to evaluate and report pavement conditions, monitor system performance, anticipate necessary improvements, and demonstrate compliance with M2 PMP requirements. Similar to the Eligibility Guidelines, the proposed revisions are administrative in nature and include updates to dates, deadlines, checklists, and webpage links. A summary of the proposed revisions to the Countywide PMP Guidelines is provided in Attachment B, and a redlined version of the proposed changes is included in Attachment D.

LSSP Guidelines

The LSSP Guidelines outline the procedures necessary for local jurisdictions to develop and maintain an LSSP in conformance with the criteria set forth in the M2 Ordinance. Jurisdictions are required to update their LSSPs on a triennial basis to remain eligible to receive M2 net revenues. The proposed revisions are administrative in nature and include updates to submittal and cycle dates, wording refinements, and clarification of submittal requirements. A summary of the proposed revisions to the LSSP Guidelines is provided in Attachment E, and a redlined version of the proposed changes is included in Attachment F.

LFS Guidelines

The LFS program provides formula-based funding to local jurisdictions to support costs related to ageing streets and other local transportation needs. Due to the flexibility of these funds, additional guidance is necessary to support consistent interpretation of eligible uses.

In response to an Internal Audit recommendation included in the April 28, 2025, Board staff report, the M2 LFS Guidelines were developed to clarify allowable uses of LFS funds for “other transportation purposes”. Some examples of eligible uses include transit planning, operations and maintenance and capital needs, as well as street drainage systems, trails used for transportation purposes, and maintenance of alleys if they are part of the public road system. The M2 LFS Guidelines are intended to complement the Eligibility Guidelines by improving consistency, clarity, and accountability in the administration of LFS funds. The

proposed M2 LFS Guidelines have been reviewed by legal counsel and are provided in Attachment G.

Next Steps

Following Board approval, OCTA will conduct a workshop with local jurisdictions on April 14, 2026, to present the approved guideline updates, including the newly adopted M2 LFS Guidelines, and to provide guidance on upcoming eligibility requirements and submittal processes. Staff will continue to coordinate with all local jurisdictions throughout the eligibility review cycle to facilitate the timely and complete submittal of required M2 eligibility components.

Staff will return to the Board to seek approval of M2 eligibility findings and recommendations through a two-phased process, with the first component (due in June 2026) being presented for Board consideration in February 2027, and the second component, M2 Expenditure Reports (due in December 2026), being presented in July 2027.

Summary

Revisions to the Eligibility Guidelines, including the MOE benchmark adjustment, Countywide PMP Guidelines, and LSSP Guidelines, along with approval of the new M2 LFS Guidelines, are recommended to support local jurisdictions in meeting M2 eligibility requirements and facilitate the initiation of the ongoing M2 eligibility review process. Upon Board approval, the first phase of the next M2 eligibility review cycle will commence.

Attachments

- A. MOE Benchmark by Local Jurisdiction
- B. Revisions to the Measure M2 Eligibility Guidelines and Countywide Pavement Management Plan Guidelines
- C. Measure M2 Eligibility Guidelines - Fiscal Years 2026/27 Through 2028/29, Redlined
- D. Countywide Pavement Management Plan Guidelines, April 2026, Redlined
- E. Revisions to the Local Signal Synchronization Plan Guidelines
- F. Guidelines for the Preparation of Local Signal Synchronization Plans, April 2026, Redlined
- G. Measure M2 Local Fair Share Guidelines – Effective April 2026

Prepared by:



Stephanie Mooney
Senior Transportation Funding Analyst,
Local Programs
(714) 560-5312

Approved by:



Rose Casey
Executive Director, Planning
(714) 560-5729